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ABSTRACT

The General Accounting Office was asked by the House Committee on Education and Labor to review state implementation of the Child Care and Development Block Grant to determine the problems states encounter as they integrate the block grant and the other federal child care programs for low-income families into their child care delivery programs and to identify gaps in the delivery of child care services to the low-income population. Review of federal program reports, interviews with administrators at the federal and state levels as well as with child care program operators and child care advocates, and site visits in six states indicated that states are making progress toward integrating the child care programs into seamless systems, but different federal program requirements and resource constraints produce gaps that are found in: (1) categories of clients who can be served; (2) limits on the types of employment-related activities clients can undertake without losing eligibility; (3) limits on the amount of income clients can earn; and (4) limits on the time in which they can receive subsidies. The current fragmented system does not consistently meet the needs of the low-income population attempting to become self-sufficient. The categorical nature of the funding streams, with entitlements to some client categories, time limits, mothers, and activity limits on still others, has the unintended consequence of producing gaps in services. A major contributor is differences in federal programs and the resulting rules that create gaps in services at the state level. As a result, states may not be able to provide child care services to their low-income clients in ways that promote and support self-sufficiency. One table and one figure provide study data. Two appendices contain characteristics of the sample states and major contributors to the report. (SLD)

United States General Accounting Office

GAO

Report to Congressional Requesters

May 1994

CHILD CARE

Working Poor and Welfare Recipients Face Service Gaps

ED 386 509

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2

GAO

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Health, Education, and
Human Services Division

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May 13, 1994

The Honorable William D. Ford
Chairman, Committee on Education
and Labor
House of Representatives

The Honorable Matthew G. Martinez
Chairman, Subcommittee on Human Resources
Committee on Education and Labor
House of Representatives

In recent years, as the number of working mothers with young children has increased, the Congress has recognized the importance of child care to family self-sufficiency. Between 1988 and 1990, the Congress created four new child care programs for low-income families, and in fiscal year 1992 more than $1.5 billion in federal funds was made available for these programs. Two of the programs, Aid to Families with Dependent Children (AFDC) child care and Transitional Child Care (TCC), were included in the Family Support Act of 1988 (FSA) to meet the child care needs of welfare recipients attempting to become self-sufficient through education, training, and employment. The other two programs, At-Risk Child Care and the Child Care and Development Block Grant, were authorized by the Omnibus Budget Reconciliation Act of 1990 to support working poor families. Although all four programs were designed to reduce the cost of child care for low-income families, they have different objectives, target populations, and program requirements. Consequently, integrating these new federal programs into existing state systems of child care in a way that both promotes and supports self-sufficiency has been a continuing challenge and area of concern for states.

In preparation for reauthorization of the block grant, the largest of these programs, you asked us to review state implementation of the block grant to determine problems that states encounter as they integrate the block grant and the other federal child care programs for low-income families into their child care delivery systems. Our objectives were to (1) determine how states are integrating the child care block grant program with the three other federal child care programs for low-income families and (2) identify gaps in the delivery of child care services to the low-income population that could impede their achieving economic self-sufficiency through employment.

Results in Brief

States are making progress toward integrating the child care programs into seamless systems; however, different federal program requirements, coupled with resource constraints, produce gaps in the delivery of child care subsidies to the low-income population. Specific service gaps we identified stemmed from program differences in (1) categories of clients who can be served, (2) limits on the types of employment-related activities clients can undertake without compromising their benefits, (3) limits on the amount of income clients can earn without losing their eligibility, and (4) limits on the amount of time during which clients can receive child care subsidies.

Some states attempt to fill the gaps in child care service with flexible funds such as federal block grant dollars or state and local funds, which are less restrictive than the title IV-A[1] child care funding streams. In addition, recognizing the important role of subsidized child care in preventing poor families from having to depend upon welfare, some states target block grant and state-only child care funds to the nonwelfare, working poor. However, with fiscal constraints on the amount of funds that state legislatures appropriate to child care, there is pressure to use available state dollars to claim federal matching funds to meet the child care entitlements established by FSA. Further, some states that have not claimed sufficient federal child care funds to meet the need use block grant dollars to provide child care to entitled welfare recipients. Therefore, when there are limited funds, eligible nonwelfare, working poor families may not receive child care subsidies, placing them at greater risk of becoming dependent on welfare.

Despite congressional expectations that the block grant would motivate states to significantly increase direct support to working poor families in need of child care assistance, the current fragmented federal system of subsidized child care appears to provide little incentive for states to do so. In an environment of finite resources, where the child care programs for welfare and recent welfare recipients are entitlements, there is pressure to serve these groups, while equally needy working poor families may go unserved. Moreover, because each of the four federal child care programs we studied was designed with a different objective, they unintentionally segment the low-income population into categories that fail to recognize the similarity of their economic circumstances and child care needs. State officials believe they would be better able to provide child care services that support self-sufficiency efforts if there were greater consistency

[1]AFDC child care, TCC, and At-Risk Child Care are all amendments to title IV-A of the Social Security Act. This act established AFDC, which is commonly known as a welfare program.

across programs and if they had more flexibility in how they spend their federal child care funds.

Background

By including child care in FSA, the Congress acknowledged the importance of child care to helping welfare recipients obtain employment, leave welfare, and stay employed. Thus, FSA guarantees child care to employed AFDC recipients and to participants in the Job Opportunities and Basic Skills Training (JOBS) program[2] as well as other AFDC recipients in state-approved education and training. In addition, FSA guarantees a year of transitional child care to AFDC recipients after they leave the welfare rolls because they have increased their earnings from employment.

In recognition of the importance of child care subsidies for working poor families, the child care provided under the At-Risk Child Care program is reserved for working families not currently receiving AFDC that would be at risk of becoming eligible for AFDC if child care were not provided. Finally, the block grant was designed to provide direct support to low-income working families that need child care to work or to participate in education and training, and to improve the quality and availability of child care for all consumers. Table 1 summarizes the features and funding of these child care programs.

As shown in table 1, AFDC child care and TCC are entitlements to clients and require state matching funds. Any person eligible for TCC or AFDC child care cannot legally be denied a subsidy. A state can finance the subsidy to entitled individuals by putting up the state match to claim federal funds or by using an alternative funding source such as the block grant. In fiscal year 1992, the states spent $622 million in combined federal and state funds on AFDC child care; they spent $134 million on TCC. The At-Risk Child Care program is an entitlement to states, not individuals; each state is allocated a proportionate share of federal funding based on the number of children under age 13, which must be matched in order for the state to receive federal funds. In fiscal year 1992, states spent $599 million in federal and state funds combined on At-Risk Child Care. The child care block grant, not an entitlement to individuals or states, requires no state matching funds. It is allocated to states according to a formula that factors in the proportion of young children and the number of needy children[3] in each state as well as per capita income. In fiscal year 1992, $798 million in

[2]The employment, education, and training program for AFDC recipients established by FSA.

[3]Based on the number of children receiving free or reduced-price lunches under the Department of Agriculture's school lunch program.

federal child care block grant funds were allocated to the states and territories.[4]

Table 1: Federal Child Care Program Features

	Program			
	AFDC child care	**TCC**	**At-Risk Child Care**	**Block grant**
Purpose	To assist AFDC families with child care to the extent that it is necessary for employment or state-approved education and training	To provide up to 12 months of child care to working AFDC recipients upon loss of eligibility for AFDC due to an increase in hours of or earnings from employment	To provide child care to non-AFDC working families who would be at risk of AFDC dependency if child care were not provided	To increase availability and affordability of child care for low-income families as well as to help states provide, expand, and improve the quality of child care for all families
Target population	AFDC recipient who accepts or retains employment or is in state-approved education or training activity	Family that received AFDC in 3 of last 6 months and is no longer eligible for AFDC due to increased hours of or earnings from employment	An optional state program for low-income families at risk of AFDC dependency and needing child care to continue working	Families at or below 75% of state median income, to enable them to work or to participate in approved education and training, or to provide child care for protective service cases[a]
Funding	Open-ended federal entitlement to recipients; requires state matching funds	Open-ended federal entitlement to families; requires state matching funds	Capped entitlement to states; requires state matching funds	Block grant to states; no match required
FY 1992	$621,727,109[b]	$133,594,923[b]	$599,050,901[b]	$798,249,375[c]
State administration	State IV-A agency	State IV-A agency	State IV-A agency	"Lead state agency"[d]

[a]These are children in state custody due to abuse or neglect.

[b]Combined federal and state expenditures.

[c]Total of amounts allocated to the states and the territories.

[d]The "lead agency" is designated by the governor and responsibility can be assigned to a non-IV-A agency.

Taken together, these program funding sources amounted to over $2 billion in 1992 and appear to be a large infusion of funds into the subsidized child care system; however, they provided child care to only a small portion of the eligible population. Based on preliminary fiscal year 1992 data reported to the Department of Health and Human Services (HHS) by the states,[5] only between 5 and 6 percent of the AFDC caseload received

[4]States have 4 fiscal years in which to spend any one year's block grant allocation.

[5]According to HHS, the child care data are underreported. Consequently, the number of families actually receiving subsidies is likely to be somewhat higher.

AFDC child care subsidies, and less than 30 percent of JOBS participants received child care assistance from any funding source.[6]

Before 1988, there were no major federal child care funding streams specifically designed to provide child care subsidies as a means of promoting economic self-sufficiency for low-income families. Thus, over the years, states developed their own systems of subsidized child care, with substantially different levels of financial commitment, reflecting diverse state philosophies toward child care.

Currently, states are trying to integrate the new federal programs into their existing systems of child care in a way that both responds to federal mandates and promotes economic self-sufficiency for the low-income population. These efforts at integrated systems of child care have as a goal the creation of a seamless system of care in which the lines between eligibility limits and other rules among the different state and federal child care programs are invisible to the client and the child care provider.

Seamless systems would allow families to move from one funding stream to another with no disruption in child care services as family economic situation and eligibility for child care change. Seamless systems would promote continuity of care, which is considered important to the mother and the child, as families strive for economic self-sufficiency. Disruptions in child care can threaten the sometimes fragile gains families have made in moving from welfare to work. Continuity of care offers emotional security to the child; stability of care ensures the parent will be able to meet employer expectations for timeliness and attendance.

In recognition of the importance of continuity of care, HHS, which administers all four federal child care programs, has encouraged states to integrate the federal child care programs into seamless systems at the state level. To accomplish this, however, states must overcome the administrative barriers imposed by multiple, and in some cases conflicting, program requirements. In an attempt to eliminate some of these barriers HHS has published proposed changes to the child care regulations.

Scope and Methodology

To find out how states are integrating the block grant with the three title IV-A child care programs, we reviewed federal program reports and talked with child care program administrators at the federal and state levels as

[6]Many welfare recipients rely on unpaid informal child care arrangements. In addition, working AFDC recipients can have a limited amount of the money they pay for child care disregarded from their earnings when their AFDC benefit is calculated.

well as with child care program operators and child care advocates. To obtain detailed information on program delivery systems and gaps in services, we visited six states: California, Illinois, Massachusetts, Michigan, New York, and Texas. We selected these states because each has a substantial welfare caseload and because they differ in their financial commitment to child care, philosophy toward child care, administrative structure, and child care delivery system (see app. I for a summary of the six states' selected characteristics). In each state we reviewed state plans and budgets, and we talked with state child care program administrators. In three states, California, Illinois, and Texas, we also visited local child care providers funded with federal block grant and title IV-A child care funds.

We did our work between October 1992 and November 1993 in accordance with generally accepted government auditing standards. We did not, however, verify the data or perceptions of problems reported by the states.

States Are Making Progress Toward Providing Seamless Child Care Services, but Gaps Remain

Although all six states we visited had made progress toward developing seamless systems of child care delivery, they all reported that service gaps remained that they could not fill without some changes at the federal level. In addition, states reported that the patchwork of child care programs resulting from state funds and the four separate federal funding streams, each with its own set of rules and reporting requirements, are an administrative burden.

Similar Techniques Used to Promote Seamlessness

Techniques we found being used to promote seamlessness included standardizing provider payment rates and client copayments, and specifying the same income eligibility for receiving a child care subsidy. For example, Illinois paid the same rates to providers regardless of the clients' welfare status. Furthermore, for nonwelfare working parents, Illinois had the same income eligibility standards and required the same copayment regardless of whether state or federal funds were involved. New York made the same providers eligible for title IV-A child care and block grant funding, so that a client changing eligibility from one funding stream to another would not have to change providers. In addition, New York standardized parent fees for all funding streams. California is attempting to standardize its reimbursement rates, client copayments, and the income level for determining eligibility.

For some states, developing a seamless system is more complicated than for others. For example, in California, which has had a large state-funded

system of child care for almost 50 years, the state programs tend to be more generous than federal programs, making integration difficult. Moreover, states with county-administered systems, such as New York and California, have more difficulty integrating programs into a unified system because these states' programs vary at the county level as well.

The length to which states went to develop seamless systems is exemplified by Texas, which won a Harvard University/Ford Foundation Innovation in State and Local Government Award for having developed an integrated automated system of child care delivery that consolidated federal and state eligibility criteria, application processes, and funding streams. The Texas Child Care Management Services system was designed to manage 8 sources of state and federal funding and 22 client eligibility categories resulting from the addition of federal funding to the existing child care system. An explicit goal of this system was to ensure that families would not have to reapply when their eligibility status changed from one funding source to another. Consequently, the system is designed to permit any provider to accept any subsidized child funded by any funding source. To achieve this, the Texas system links eligibility to appropriate funding streams and seeks out alternate funds when primary funds are depleted.

With the advent of the block grant, Michigan formed a Unified Day Care System to administer all child care subsidies to welfare recipients in employment and training; low-income, nonwelfare recipients; migrant workers; children in foster care; and child protective service clients. This system was designed to administer the three title IV-A child care programs, the federal block grant, and other state child care funds. The intent of the Unified Day Care System was to provide seamless services to clients. Nevertheless, the Michigan Director of Child Care observed that it is difficult for a state to develop a seamless system when states still have to submit separate plans and reports for the different federal programs.

Gaps in Providing Seamless Child Care Services

Despite state progress in developing seamless systems of providing child care, gaps in services remain because of different program requirements. These program requirements differ in specifying (1) the categories of clients who can be served, (2) the activities clients are permitted to pursue while remaining eligible for child care, (3) the ceiling on the amount of income that may be earned while retaining program eligibility, and (4) the length of time the child care subsidy is allowed to be paid. States told us that these conflicting requirements and resulting gaps can have negative

consequences for families, such as losing their child care subsidy when they need it to remain in the labor force.

Categorical Eligibility

The current system of child care guarantees subsidies to AFDC recipients participating in employment or state-approved education and training activities as well as to employed former AFDC recipients, but not to working poor families outside the AFDC system. The categories specified within the federal child care programs do not reflect the reality of the transition from welfare to economic self-sufficiency. Movement toward self-sufficiency tends to be sporadic, and individuals who have worked their way off welfare generally are still poor. In fact, some may be economically worse off than when they were on welfare since they now face work expenses that can include child care.

Moreover, the categorical nature of programs does not recognize that disruptions in important services such as child care can cause economically marginal families to lose jobs and, if eligible, to be forced to rely on welfare. Despite similarities among families in all the programs, the patchwork of child care funding makes fine distinctions among categories of families. While welfare status guarantees a child care subsidy to individuals in employment-related activities, there may be little difference in economic status between a welfare recipient and a low-income, nonwelfare recipient. In fact, there are welfare recipients who work but do not earn enough to make them ineligible for welfare; and welfare recipients may cycle on and off assistance a number of times before leaving welfare permanently. Consequently, the separate programs may be distinguishing between the same individuals at different points in their journey from welfare to economic self-sufficiency.

Under the existing system, with finite resources, it may be easier for welfare or former welfare recipients to obtain a child care subsidy than it is for a low-income, nonwelfare working person to do so, even though their economic situation and child care needs may be quite similar. For example, in Michigan, low-income working families must be very low income to qualify for child care assistance and may be expected to pay relatively large copayments toward the cost of child care as their income increases. On the other hand, welfare recipients who work or are in state-approved education and training are entitled to child care as are

former welfare recipients who leave the welfare rolls when they become employed.[7]

Employment-Related Activities

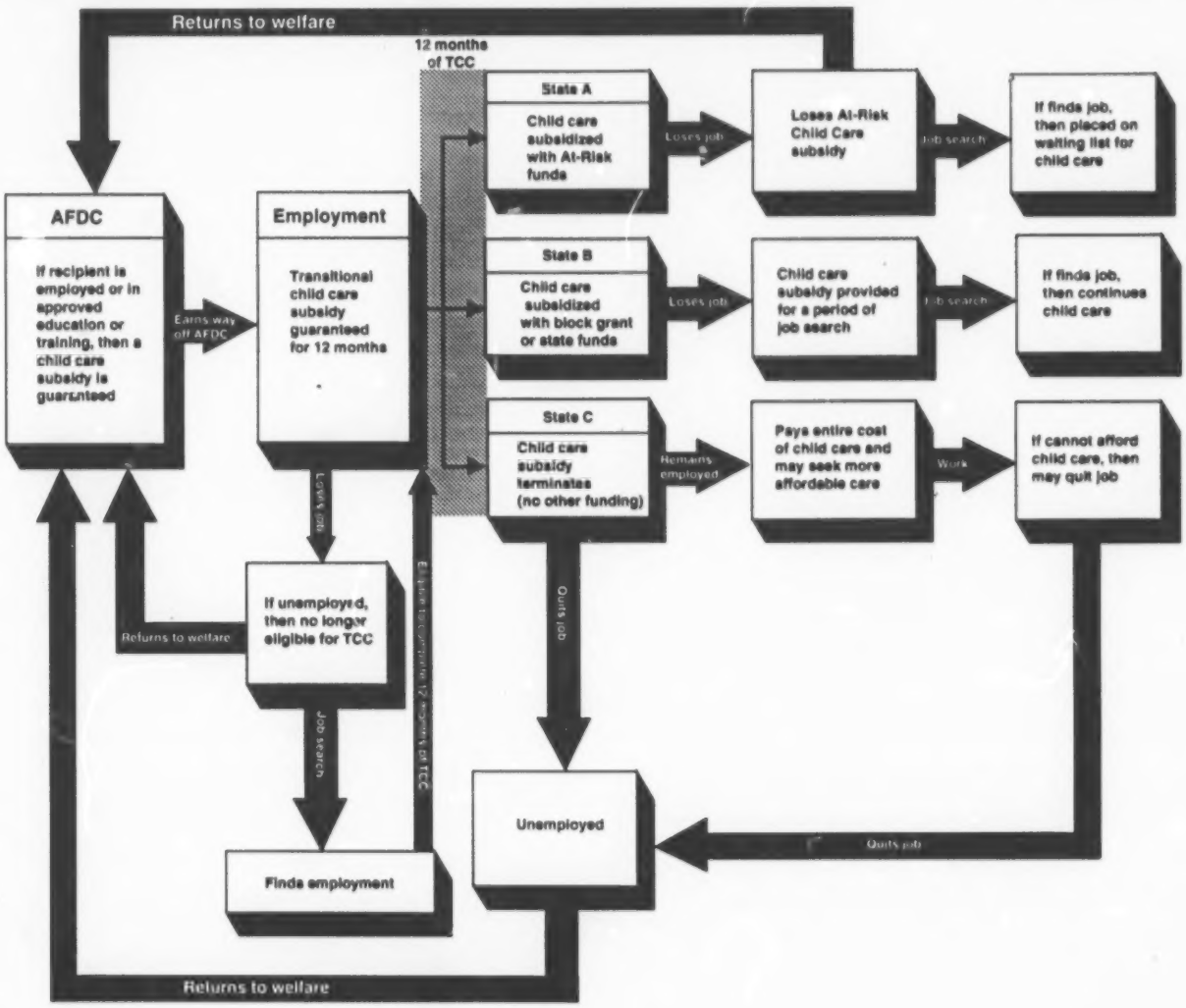
Although At-Risk Child Care and TCC statutory language expressly provides for child care subsidies during employment, HHS regulations strictly interpret the statute and do not specifically allow the use of those funds to subsidize child care during a period of job search. Five of the six states we visited told us that the At-Risk Child Care program funds cannot be used to subsidize child care during a period of job search or other break in employment unless employment is scheduled to begin.[8] Consequently, when an employed individual whose child care is subsidized by At-Risk Child Care or TCC funds becomes unemployed, the child care subsidy is generally lost. The children then have to be pulled out of care unless the parent or another funding source can pay the entire cost of care.

Should the parent subsequently find employment, in many cases he or she will go to the end of a waiting list for subsidized child care and continue to pay the full cost of the care. If these circumstances force the family onto welfare, the parent would be eligible again for some form of child care assistance once a job was found or the parent began to participate in state-approved education or training. Figure 1 is a hypothetical flow of low-income families through the subsidized child care system and demonstrates possible outcomes of the different rules for different child care programs.

[7]We understand that some states have, consistent with HHS guidance, limited their obligations to provide child care subsidies by incorporating fiscal considerations into their criteria for approving education or training programs.

[8]The only state we visited not reporting a concern over At-Risk Child Care was Michigan, which did not plan to participate in the program until 1994.

Figure 1: Hypothetical Client Flow Through Subsidized Child Care System


Returns to welfare
12 months of TCC
AFDC
If recipient is employed or in approved education or training, then a child care subsidy is guaranteed
Earns way off AFDC
Employment
Transitional child care subsidy guaranteed for 12 months
State A
Child care subsidized with At-Risk funds
Loses job
Loses At-Risk Child Care subsidy
Job search
If finds job, then placed on waiting list for child care
State B
Child care subsidized with block grant or state funds
Loses job
Child care subsidy provided for a period of job search
Job search
If finds job, then continues child care
State C
Child care subsidy terminates (no other funding)
Remains employed
Pays entire cost of child care and may seek more affordable care
Work
If cannot afford child care, then may quit job
Loses job
If unemployed, then no longer eligible for TCC
Returns to welfare
Eligible to reapply for TCC
Job search
Finds employment
Quits job
Unemployed
Quits job
Returns to welfare

Since many of their clients frequently move in and out of employment, program providers told us that using At-Risk Child Care dollars while they are employed increased clients' likelihood of losing child care upon

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termination of employment. The absence of child care makes looking for work more difficult, especially for single parents, and, program providers fear, puts low-income families at greater risk of becoming welfare recipients.

In California, for example, we were told that local child care providers who were subsidizing low-income families with state funds did not want to use these funds to claim federal At-Risk Child Care money, even though having that money would substantially increase the funding pool available for child care. Under the At-Risk Child Care program in California, clients lose their child care subsidy within 10 days of losing their job. In contrast, California's state child care program permits 60 days of child care during a period of job search.

California child care program administrators and providers told us that their clients regularly move in and out of employment and that it is important to maintain the continuity of child care after they leave a job and during periods of job search. These providers prefer to serve well and consistently those clients already in their system rather than serve larger numbers of clients in a piecemeal fashion. Similarly, citing concerns that not providing child care subsidies during a job search made clients more vulnerable to welfare, child care administrators in New York and Massachusetts reported that they use state funds to subsidize child care during periods of job search.

Income Eligibility

Because the federal block grant limits eligibility to families with incomes at or below 75 percent of the state median income, it produces a "cliff"[9] for clients whose income rises even $1 above this level. We were told, for example, by a local Department of Social Services child care worker in Michigan that clients reduce their hours of work as they approach the cutoff income level because they believe they will not be able to pay for child care without the subsidy.

Further, the California state child care program will subsidize a family up to 100 percent of the state median income. Thus, two families in the same economic situation in California may be treated differently, depending on which funding stream subsidizes their child care. The family funded with federal block grant funds faces the loss of the child care subsidy as its income increases beyond 75 percent of state median income and is at risk

[9]A "cliff" refers to a situation in which a small increase in income results in a large decrease in spendable income because of the abrupt termination of some benefit.

of not being able to continue to support itself. The family subsidized by state-only money, however, will continue being subsidized up to 100 percent of state median income.

Time Limits

The TCC program also presents a service delivery dilemma. At the end of the 12 months of entitlement, if a state does not have any block grant, At-Risk Child Care, or other funds to continue the subsidy to a client, the cost of child care must be borne entirely by the client. This situation occurs even if there has been no increase in the client's earnings during the 12 months. The result could be that the children get moved to cheaper care or that the parent quits work. Should the parent return to welfare and participate in employment or state-approved education and training, the family once again would be entitled to child care.

All six states we visited perceived the TCC 12-month provision of child care to be too short. They all attempt to continue to subsidize TCC families with another funding source after the 12-month limit. Three states make post-TCC clients a priority for At-Risk Child Care funds, and three states use the block grant. One state uses state-only funds for these families. However, since these funding streams are limited, states do not always have funds to continue the subsidy.

When Texas ran out of funds to continue TCC, a special waiting list for these post-TCC families was created so that they would be the first to receive additional funds when they became available. However, state officials expressed concern over what clients would do about child care in the interim. While one Texas official would like to see greater utilization of TCC, she is concerned that this usage would reduce the amount of state funding available to claim At-Risk Child Care funds. This circumstance could serve to further limit subsidies for the working poor with no immediate ties to welfare.

Like Texas, Illinois officials told us that they had run out of funds to subsidize child care for post-TCC families. Since some former welfare recipients may never earn enough money to afford the full cost of child care, the 12-month limit on the TCC subsidy may not be long enough to support such families. Moreover, the loss of the child care subsidy increases the likelihood that these families will return to welfare. Consequently, officials in three of the six states have requested, or are considering requesting, a federal waiver in order to be able to continue providing TCC for 12 additional months.

Because TCC is an entitlement to clients, the 12-month extension would allow states to claim additional federal funds to continue the child care subsidy. However, in recognition of the fact that there is no guarantee that at the end of the 12-month extension families will be any better off financially, officials in Illinois and New York said they would like to see states have the option to base eligibility for TCC solely on income.

Current System Provides Little Incentive to Serve the Working Poor

Current rules for the disparate child care programs previously described produce incentives for states to serve entitled clients first and to form waiting lists for other eligible families. Although child care workers believe that the provision of child care is important to prevent low-income working families from going on welfare, these families are served, as funding permits, after states provide subsidies to entitled individuals. Clients who are entitled by law to receive child care benefits are placed in one category, and other eligible individuals are prioritized and served as resources permit.

In most states, child protective service cases, along with clients entitled to AFDC child care and TCC, are in the category that will receive child care subsidies. Working poor, nonwelfare recipients are in the group that will receive subsidies as resources permit. For example, in Texas the latter rank fourth in a priority list consisting of eight major client groups. In Massachusetts, they are the third eligibility category out of three categories. Illinois reports that it serves its nonentitled caseload in the following order: teen parents, protective services and special needs families, followed by low-income working families.

The combination of program mandates and limited resources requires states to make difficult choices that frequently result in needy eligible families being denied services. Decisions about who will receive a child care subsidy depend upon the availability of funds and the funding rules. Eligible clients are matched with funding streams that fit their eligibility status. When the funding runs out for a particular category, states terminate intake and either form waiting lists or simply turn clients away. Consequently, clients who are eligible for funds but are not entitled to them may not receive services, while individuals who are entitled to services will receive them regardless of funding source. Moreover, as states are required by FSA to increase participation in the JOBS program,[10]

[10]The JOBS participation rate for mandatory participants was 11 percent in fiscal years 1992 and 1993 and increases to 15 percent in fiscal year 1994 and to 20 percent in fiscal year 1995.

the competition for limited child care funds will only increase, with greater pressure to provide child care to welfare recipients.

Currently, some states are using federal block grant funds to meet AFDC child care entitlements. Although the block grant legislation does not prohibit assisting families on welfare, the primary goal of the block grant is to help working poor families afford child care. However, as states run out of money to claim federal funds, they are compelled to use the block grant to meet their obligations to entitled individuals. Three of the six states we visited reported using some federal block grant funds to provide child care entitlements. In a recent survey of all states by the Children's Defense Fund, 15 states reported using block grant funds to pay for child care for at least some AFDC families in employment, education, or training programs.

In a much-publicized court case in California, a federal district court ruled that California was required by federal statute to provide child care to "self-initiated" non-JOBS, welfare participants in state-approved education and training. In response, rather than increase state funds, California transferred 1991 federal block grant funds to meet the anticipated need for child care subsidies, thereby reducing the amount of block grant funds available to low-income, nonwelfare, working families. By the end of state fiscal year 1993, $5.2 million had been spent for these cases.

Texas annually allocates a portion of its block grant funds to child care for JOBS participants because the state legislature has not appropriated enough state dollars to draw down the federal dollars to meet the child care needs of all JOBS participants. To the extent that states are using federal block grant funds to meet entitlements, there are fewer dollars for non-AFDC, low-income working families.

Working Poor Are on Waiting Lists for Child Care

Limits on the amount of available child care funding result in waiting lists of nonentitled needy families. While not all states maintain waiting lists, five of the six states we visited reported that they have substantial numbers of unserved low-income families waiting for child care subsidies. For example, Texas reported that there are an estimated 40,000 children waiting for child care subsidies. Furthermore, a 1991 survey of waiting lists for subsidized care in California found approximately 255,000 children on waiting lists. In addition, during a program review of California in 1993, HHS officials visiting a provider of child care subsidies in South

Central Los Angeles were told that there were 13,000 children waiting for subsidized care from that program alone.

While states' commitment to continuity of care helps families already receiving assistance, it exacerbates the problem for other eligible families on waiting lists. State officials told us that in many cases the incomes of families currently receiving child care subsidies are not rising beyond the point of eligibility; consequently, there is little turnover in the child care caseload and little room for additional families. Officials in these states told us that their commitment to continuity of care for families that enter their system means that a large number of eligible families cannot enter the system at all.

Even states that make a substantial commitment of state funds to the provision of child care indicated that they have waiting lists, largely composed of low-income working families. States that have a smaller financial commitment to child care may limit the provision of services to the very needy and require a large copayment from others. The result is little relief for low-income, non-AFDC working families.

Conclusions

The current fragmented child care system does not consistently meet the needs of the low-income population attempting to become self-sufficient. The categorical nature of the funding streams, with entitlements to some client categories, time limits on others, and activity limits on still others, has the unintended consequence of producing gaps in services. A major contributor is differences in federal programs and the resulting rules that create gaps in services at the state level. As a result, states may not be able to provide child care services to their low-income clients in ways that promote and support self-sufficiency.

Since there is not sufficient government-subsidized child care for the entire low-income population, states have to deny care to some people in need. Given the inadequate supply of funds, it necessarily follows that some states will seek to satisfy their mandates in a way that minimizes state costs. By law, states must serve those currently or recently on AFDC but have little incentive to serve other low-income families in like or even worse economic circumstances. As a result, the well-intentioned emphasis on providing services to assist welfare recipients in leaving welfare has overshadowed the importance of the provision of child care to prevent welfare dependency. The current system may also inadvertently create an incentive to go onto welfare for those needing child care to become

employed. By treating welfare and low-income working families as though distinctly different, when so many are in similar circumstances, the current system does not promote the goal of economic self-sufficiency in an equitable manner.

Although states have worked to produce seamless systems of child care, service gaps remain. These gaps stem largely from the child care statutes themselves, which target specific categories of need. Closing gaps in federal funding streams, facilitating state flexibility in spending federal dollars, and balancing the incentives for serving various client groups would contribute toward a child care delivery system better able to meet the needs of low-income families trying to achieve economic self-sufficiency through employment.

As agreed with your offices, we did not request written agency comments on this report. We did, however, discuss the draft with HHS officials in the Administration for Children and Families. They provided technical comments and more recent data, which we have incorporated as appropriate.

We are also sending this report to the Secretary of Health and Human Services and to other interested parties. We will make copies available to others on request.

Major contributors to this report are listed in appendix II. If you have any questions concerning this report or need additional information, please call me on (202) 512-7215.

for

Jane L. Ross
Associate Director
Income Security Issues

Selected Characteristics of Sample States

State	IV-A administration	Administration of child care	AFDC caseload (FY 1992 monthly average)	Number of children on AFDC (FY 1992 monthly average)	Number of block grant-eligible children[a]
California	County	Dept. of Social Services supervises AFDC child care and TCC. Dept. of Ed. supervises At-Risk Child Care, the block grant, and state-funded child care programs.	806,086 (16.9%)[b]	1,601,785	2,322,017
Illinois	State	Dept. of Children and Family Services administers the block grant and state-funded child care programs. Dept. of Public Aid administers AFDC child care, TCC, and At-Risk Child Care.	228,625 (4.8%)	471,798	768,190
Massachusetts	State	Public Welfare Department administers AFDC child care, TCC, At-Risk Child Care, and the block grant. Dept. of Social Services administers state-funded child care and some At-Risk Child Care.	111,448 (2.3%)	208,024	354,150
Michigan	State	Dept. of Social Services' Office of Child & Family Services administers all child care programs.	225,609 (4.7%)	440,943	657,793
New York	County	Dept. of Social Services' Bureau of Child Care supervises all child care programs.	397,172 (8.3%)	742,555	1,201,109
Texas	State	Dept. of Social Services' Office of Client Self-Support Services administers all child care programs.	265,819 (5.6%)	528,338	1,421,157

[a]Based on 1990 census data, the number of children 0 to 11 years old in families with incomes at or below 75 percent of the state median income.

[b]The percent of the fiscal year 1992 U.S. total of 4,768,495 AFDC cases.

Source: Data on AFDC caseload and number of children on AFDC were obtained from HHS Office of Family Assistance, Division of Program Evaluation, AFDC Information and Measurement Branch (Sept. 1993).

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